



5.0 Overview: Direct Loans

On August 10, 1993, Congress enacted the Student Loan Reform Act, establishing the Federal Direct Student Loan Program under the Higher Education Act of 1965, as amended. Under the Direct Loan Program, loan capital is provided directly to student and parent borrowers by the Federal Government rather than through private lenders as in the Federal Family Education Loan (FFEL) Program. Participating schools, acting on behalf of the government, deliver loan funds to student and parent borrowers. The Federal government services loans and collects Direct Loan repayments through the Direct Loan Servicing Center established and operated with contractor support.

The current Direct Loan process supports several levels of participation, with varying methods for making funds available to participating schools. In Level One, an institution receives an initial obligation amount against which they may drawdown prior to reporting detailed disbursement information. In the other levels, institutions do not receive initial funding amounts; rather, funds are directly deposited into their bank account as a result of processing student level disbursement records.

The system designed and implemented to support the current process is the Loan Origination System (LOC). It facilitates many of the core business requirements of the Loan Origination process, such as processing origination records and booking loans. Those requirements not fulfilled via the system are carried out either by the Department (Direct Loan staff, GAPS staff) or a contractor who acts on their behalf.

The purpose of this section is to provide a high-level overview of the current process for the origination and disbursement of Direct Loans. The following are included in order to describe the current process:

- *Business Requirements* – High-level requirements necessary to support the current origination and disbursement of Direct Loans. This includes both “direct” origination and disbursement requirements such as processing promissory notes as well as “indirect” origination and disbursement requirements such as compiling reference materials and providing training support.
- *Process Walkthrough: Flowchart and Narrative* – High-level flowcharts and narratives depicting the necessary steps for origination and disbursement of a single Direct Loan, both for Stafford and PLUS. These two flowcharts are complemented by more detailed flowcharts for the following key processes: origination, disbursement, promissory note processing, drawdown, and booking.
- *Current Technology Environment* – Overview of the technological infrastructure of the Loan Origination System.



5.1 High Level Business Requirements: Direct Loans

Direct Origination and Disbursement

*Receive and acknowledge originations**

Credit checks

*Print and mail documents/ correspondence**

Transmit electronic notifications/ correspondence via TIV WAN or to IFAP

*Receive and process P-notes**

*Store P-notes**

*Image documents and transmit images to other places**

*Receive and acknowledge change records**

*Receive and acknowledge disbursements**

*Book loans**

*Manage cash with GAPS**

*Inter-system balancing and reconciliation (on-going reconciliation)**

Direct Origination and Disbursement

References (provide and maintain)

Provide Training

- Provide customer service
- Help desk for schools (functional and technical)

Customer service for applicants

Establish and run computer production cycles

*Set up new schools and maintain history**

*Maintain system **

- *Including security, disaster recovery and internal controls*

Annual requirements

System updates

*Interface with other systems**

Send electronic data to other places

Support independent QC

*Generate reports/ respond to data requests**

Ship documents

** These requirements, which relate directly to the functionality that the system must support, are presented with details in Appendix C*



5.2 Current Direct Loan Origination and Disbursement Process, Narrative

The following is a high-level walkthrough of the basic steps within the Direct Loan origination and disbursement process. It is complemented by six flowcharts, which directly follow the narrative.

Application

The process begins with the student filing the Federal Application for Federal Student Aid (FAFSA). The FAFSA is filed in one of two ways, with the applicable data being sent to the CPS (either on-line or via mail). The CPS then receives the application, processes the application and mails an acknowledgement to the student.

As student application records are processed, they are also transmitted electronically to all the schools the student indicated on the FAFSA. The schools receive this information and load to their institutional system (EDEXpress, third party vendor, home grown application).

Eligibility

Upon receiving the results of student applications from the CPS (i.e.: Institutional Student Information Records (ISIR)), the schools confirms general student eligibility. This is confirmed primarily via review of the results of the matches the CPS conducted during processing. For records that are not flagged with potential eligibility issues, the students move forward in the process. For those records with eligibility holds, the school reviews the students and confirms eligibility.

Determine Award

The school then moves forward with determining the amount of funds for which the student is eligible within each program. These funds are put together in a financial aid package for the student. If eligible, the student may be packaged with a Direct Loan. At many schools, this packaging process takes place within the school's institutional system. A notification of this award package is then send to the student to inform him of the aid offered.

Communicate Award

Direct Loan originations are initiated at the institution, where information is collected, packaged and forwarded via origination records to the Loan Origination System (LOS) using EDConnect or mainframe transmission and the Student Aid Internet Gateway (SAIG) (formerly Title IV WAN). Schools may create and process their records using the EDEXpress software, Third Party Servicers or a Custom (Mainframe) System of their own. The Loan Origination Records (LOR) contain the demographic, financial, and statistical information necessary to create a borrower record in the Department's Direct Loan database. This information includes Anticipated Disbursement data (date and amount).

Process Originations

Once Information has been processed for the records submitted by institutions, the LOS generates an acknowledgment indicating that records have been received and processed. All records and batches submitted are edited using defined system edits that are available in the Direct Loan Technical Reference Custom Section. The LOS also generates the letters regarding status, and requests for information, when necessary, for designated



Common Origination and Disbursement Process

Current Environment Assessment

records. These letters are sent to the borrowers and/or schools who need to provide additional information or corrections.

Credit Check

In the case of a Parent Loan for Undergraduate Student (PLUS), a credit check report is obtained for the borrower and/or endorser upon receipt and validation of a PLUS loan origination record or an endorser form. A credit check request is not performed on subsidized or unsubsidized loans. The credit check request is forwarded through the contractor's credit check interface system to the credit agency. The credit check result is recorded in the loan origination record and acknowledged to the school on the Loan Origination Acknowledgment. Borrowers or endorsers are notified of both accepted and adverse credit results. In accordance with Department guidelines, credit results may be overridden. Rejected borrowers may appeal, in writing, citing extenuating circumstances. LOC personnel review appeals in accordance with Department guidelines and may override negative credit decisions with Department approval. In this case, a credit check override is acknowledged to the school. A "LO Extenuating Circumstance Credit Override Letter" is sent to the borrower as notification that the override appeal has been approved. If the override appeal is denied, the "LO Extenuating Circumstances Credit Override Rejection Letter" is sent to the applicant.

Disclosure Statement

After an origination records has been established for a student, a Disclosure Statement is sent to the borrower based on the anticipated disbursements reported on the Loan Origination Record. The Disclosure Statement is generated and mailed approximately 10 days prior to the first anticipated disbursement date.

Promissory Note

A promissory note is generated and sent to the borrower, either by the school or the LOC, depending on the school's level/option. The subsidized and unsubsidized loans are now processed with a Master Promissory Note (MPN) for each student. An MPN can be active for up to 10 years from the date of the first actual disbursement on a loan. This Master Promissory Note can be used for any additional Direct Subsidized or Unsubsidized loans the borrower may receive throughout their financial aid history. The Loan Origination Center (LOC) is responsible for receipt and storage of all promissory notes. Once these promissory notes are received and have passed through the editing process, the LOS is responsible for generating an acknowledgment to the schools notifying the receipt of the Promissory Note. An imaged copy of the Promissory Note is stored on the system.

Disbursement

Beginning 10 days prior to the start of classes, institutions may begin to disburse Direct Loan proceeds to students. This can be done at the institution whether or not an accepted origination record has been processed or a promissory note received, although the institution then bears the risk if the proper paperwork/ process is not completed. The disbursement must be done prior to communicating the disbursement to the LOS (as described directly below).

Communicate Disbursements

Upon disbursement Direct Loan funds to a student, the institution must transmit a disbursement record, indicating specific paid amounts and dates, to the LOC via the SAIG.



Common Origination and Disbursement Process

Current Environment Assessment

Process Disbursement Records

The LOC edits and validates actual disbursement records. A loan must be disbursed in at least two actual disbursements. However, up to twenty disbursements are allowed. If an actual disbursement record does not pass edits, it is rejected, and the school must resolve and resubmit it to the LOC. The LOC transmits a Disbursement Acknowledgment to the school, indicating all accepted and rejected disbursements. An adjusted disbursement amount record is transmitted to the LOC when the amount of a disbursement needs to be increased or decreased. This includes disbursements being adjusted to zero. An adjusted disbursement date record is transmitted to the LOC when the date of an original disbursement needs to be changed.

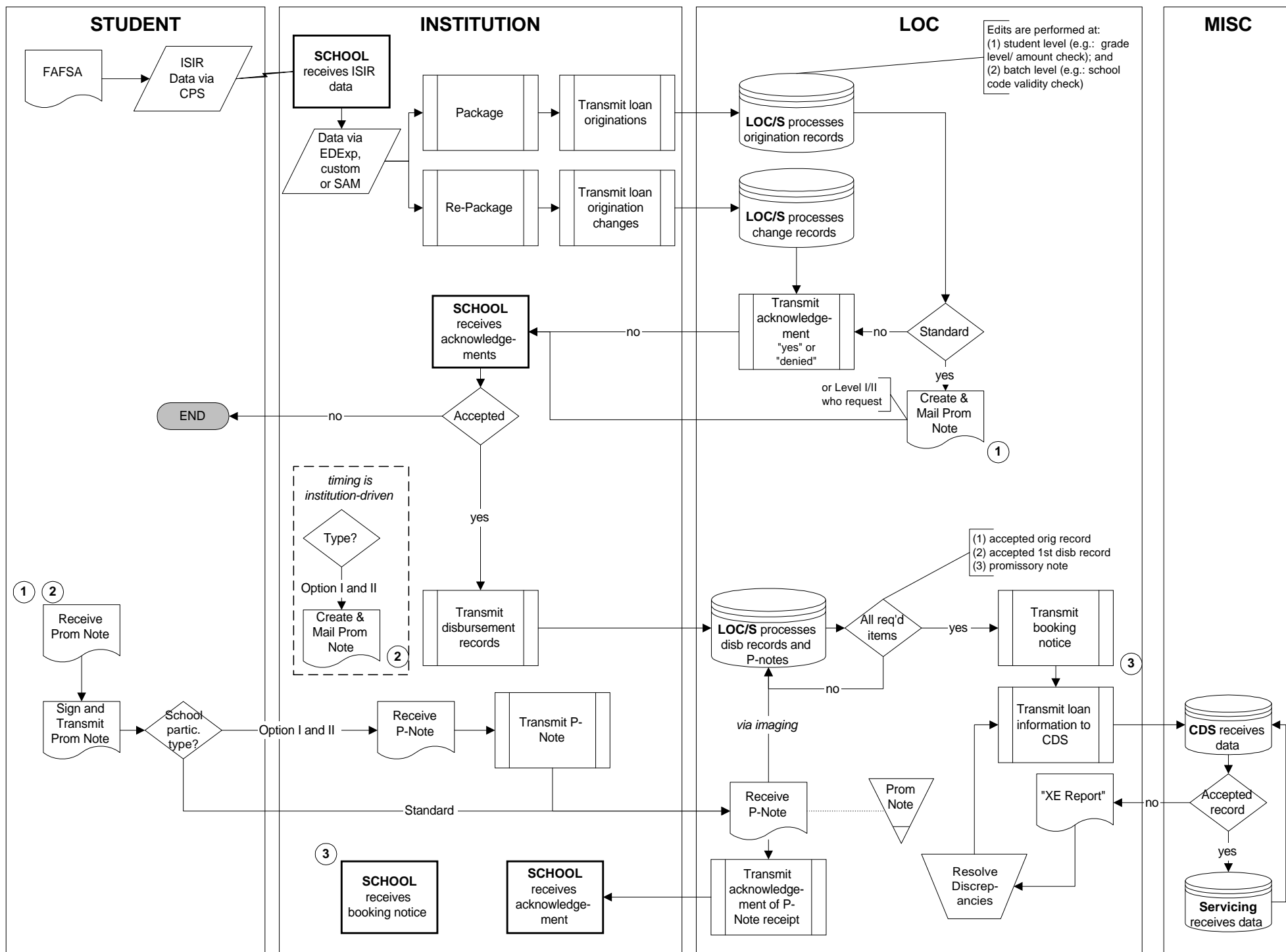
Request Funds

The LOS database produces the Anticipated Disbursement Listing (ADL) and the Actual Disbursement Roster (ADR). The ADL is created 45 days prior to the date of the first anticipated disbursement reported on the LOR. Level 1/Option 2 schools estimate and perform their own drawdowns based upon the ADL and their own financial records. The ADR, based on anticipated disbursements, notifies the school that the LOS requested the funds from GAPS and provides a detailed listing of the disbursements scheduled to be made with the funds. A valid accepted and signed promissory note is necessary to make disbursements for Level 2/Option 1 and Standard option schools. As indicated earlier, a promissory note does not have to be on file at the LOC in order for the Level 1/Option 2 school to make a disbursement.

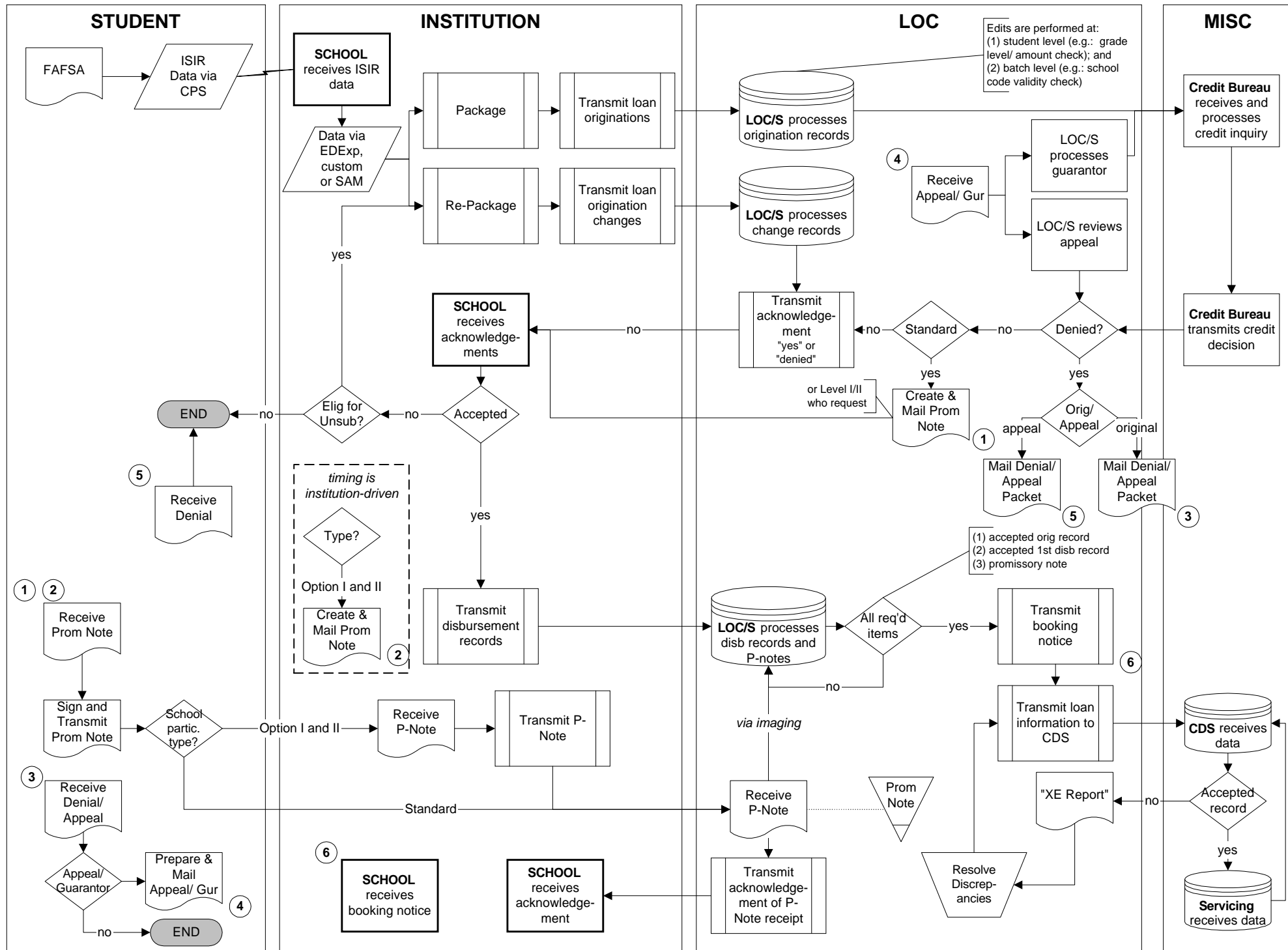
Book Loan

A loan is booked when an origination record, a promissory note, and the first actual disbursement record are accepted by the LOS. For a PLUS loan, this includes a passed credit check or a credit check override. The loan information is formatted, the Credit Reform Code (CRC) is created, and both are transmitted to the Central Database Subsystem (CDS). Booked data is transmitted to CDS and then forwarded from CDS to Servicing. In addition, a booking notification is transmitted to the school who disbursed the loan.

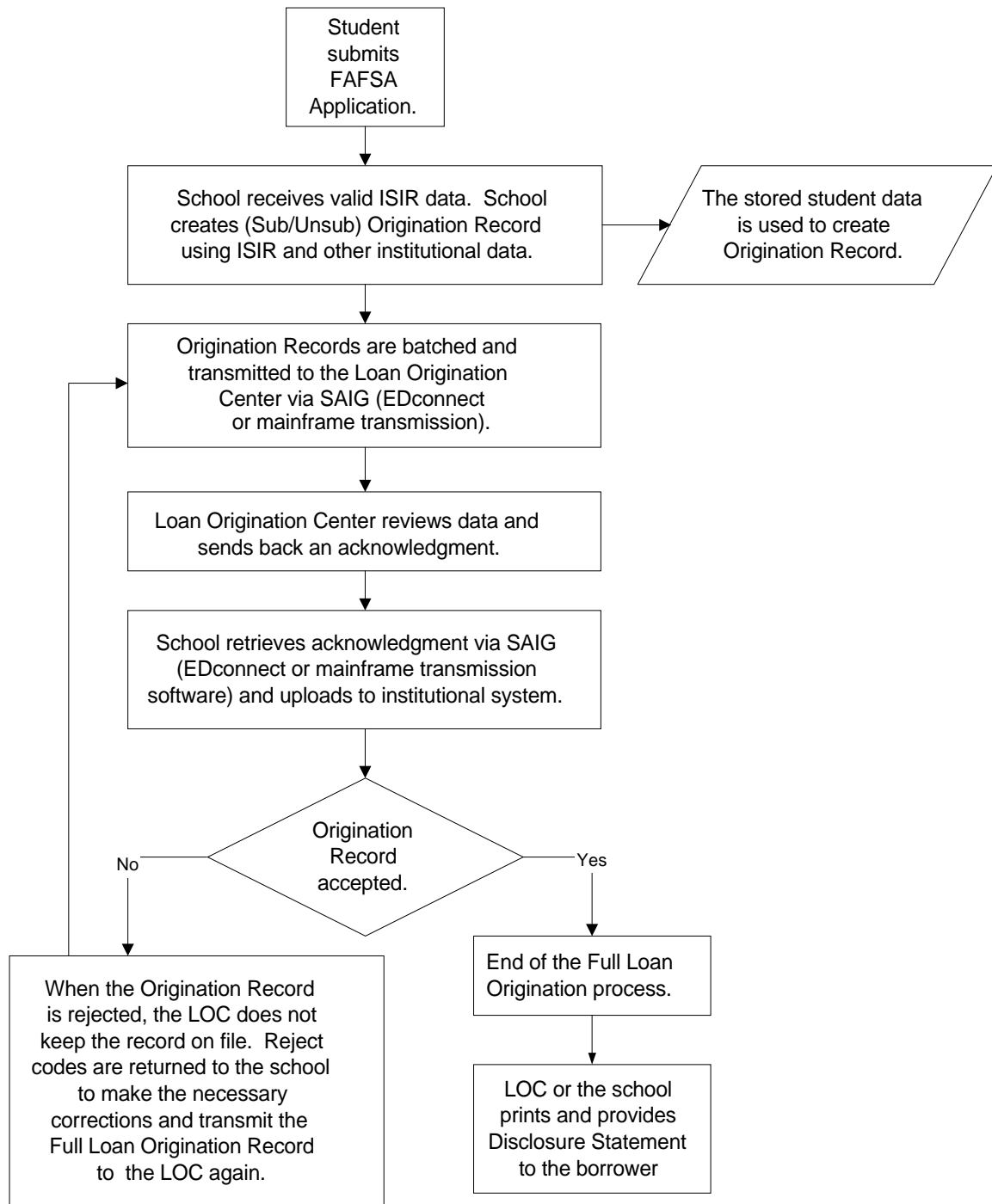
CURRENT DIRECT LOAN PROCESS -- STAFFORD



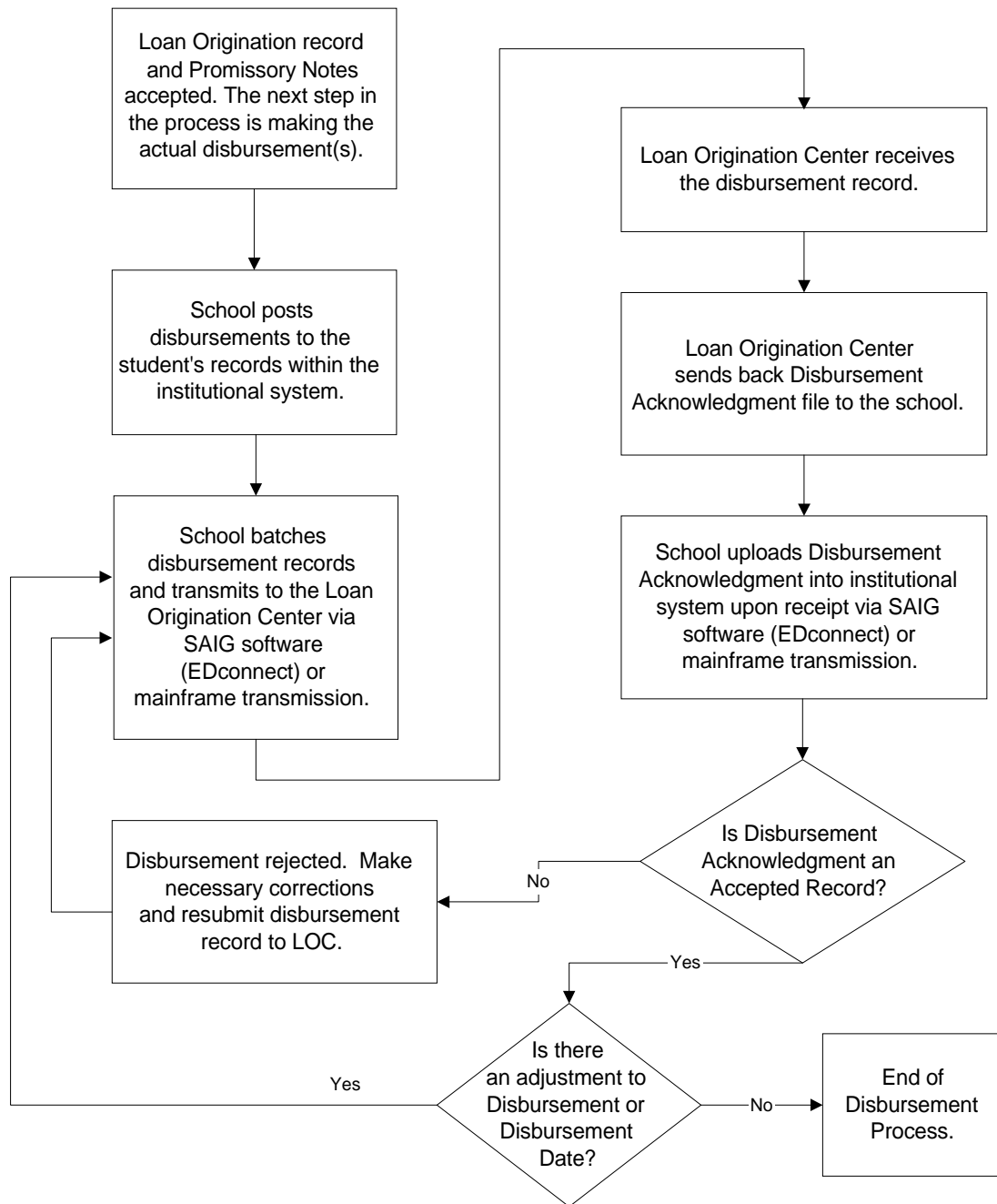
CURRENT DIRECT LOAN PROCESS -- PLUS



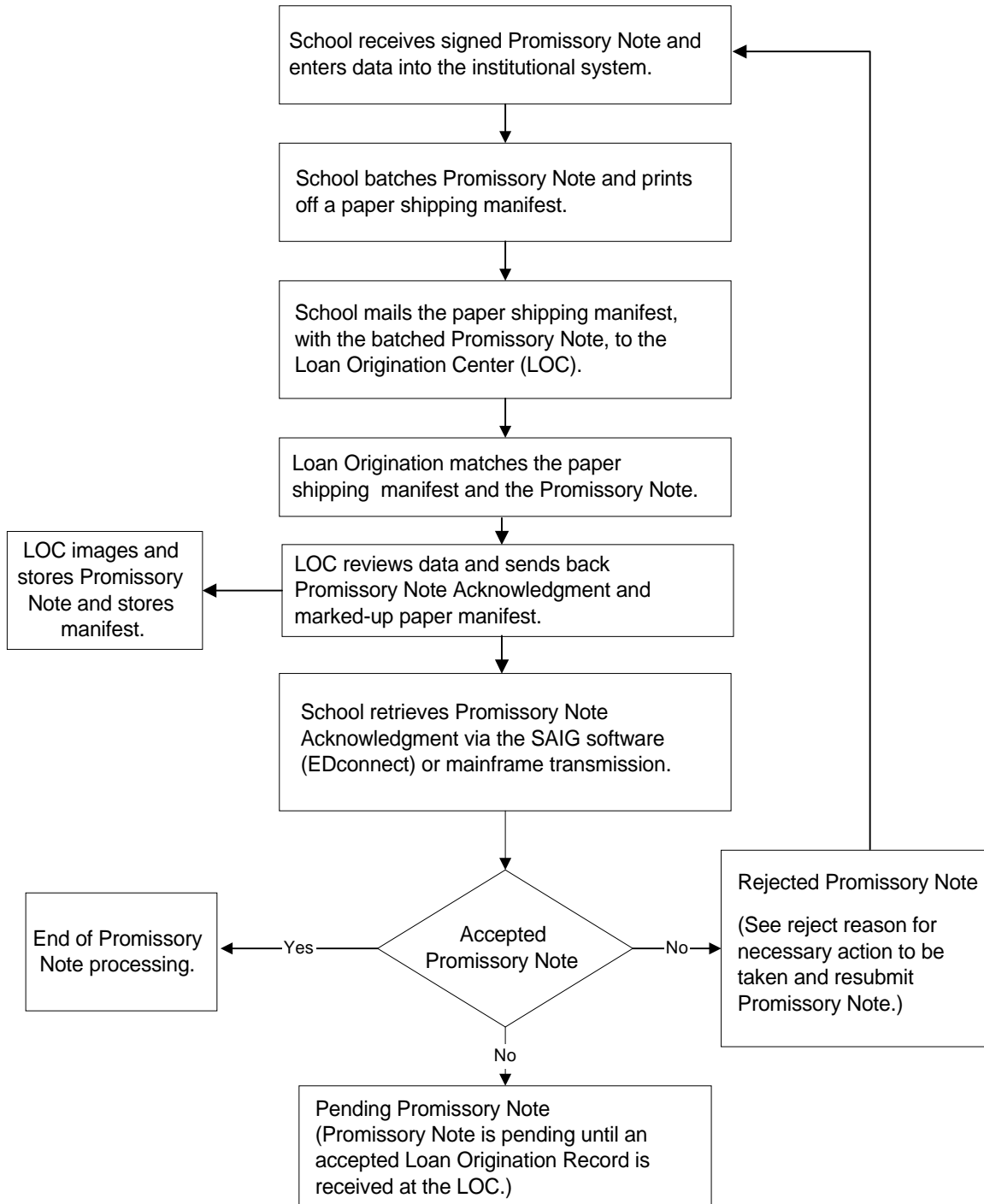
Loan Origination Process (Sub/Unsub)



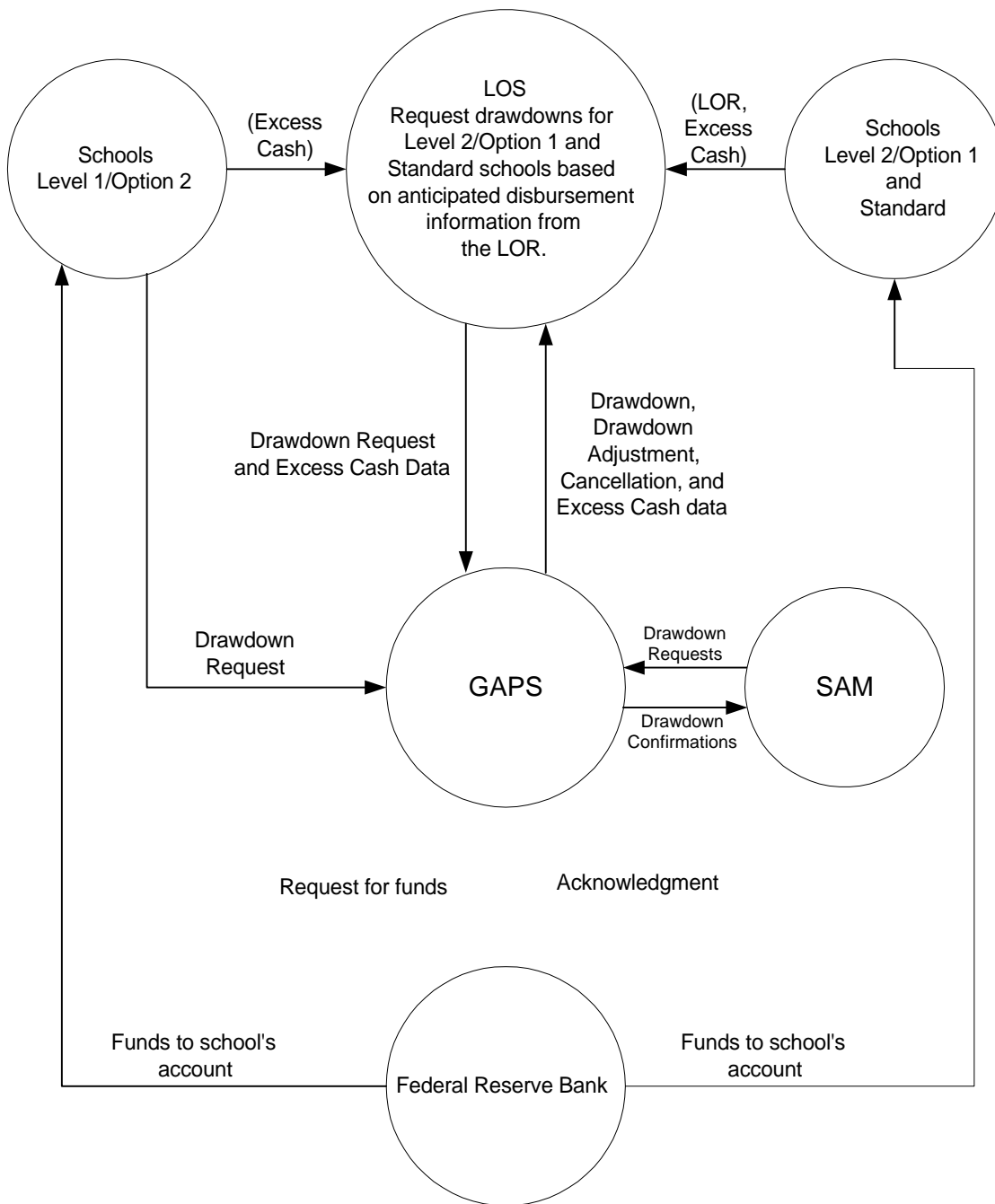
Disbursement Process



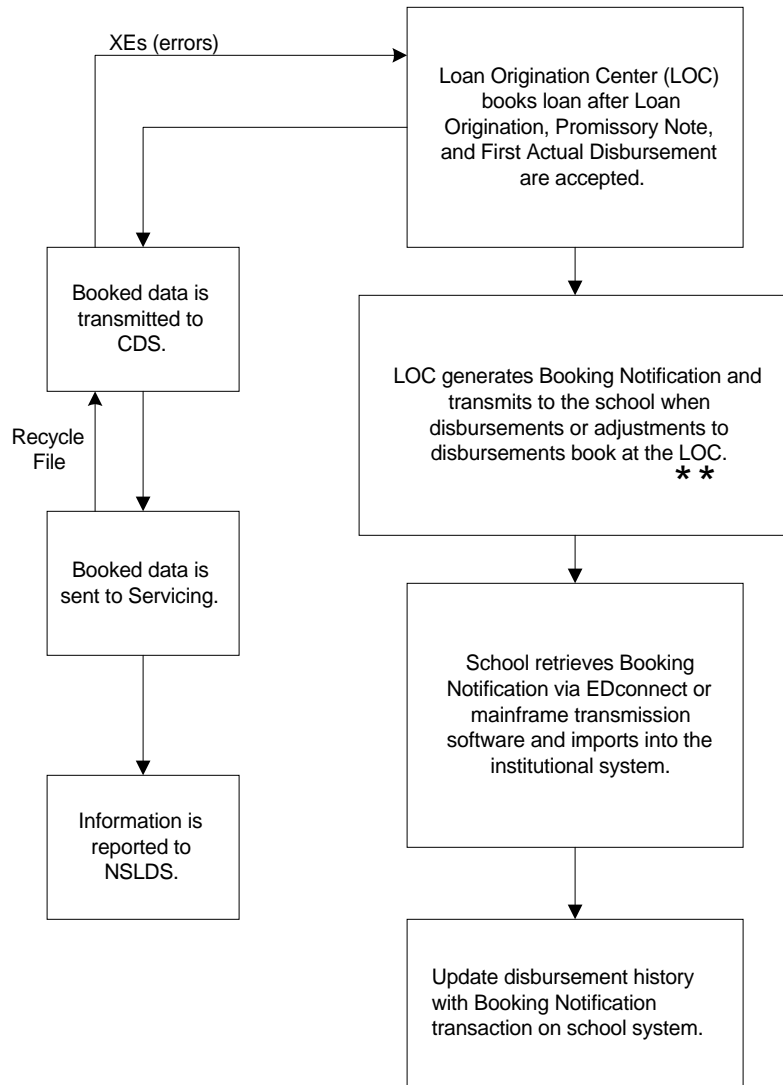
Promissory Note Process



Drawdown / Excess Cash Process



Booking Process



** New for 2000-2001